

WESTERN DEPARTMENT STORES

REPORT to STOCKHOLDERS

January 31, 1947

Corp. File
15-6

Stores operated:

OLDS, WORTMAN & KING

Portland
Est. 1851

KAHN'S

Oakland
Est. 1879

RHODES BROTHERS

Tacoma
Est. 1892

WESTERN DEPARTMENT STORES

A California Corporation

Incorporated in 1937

BOARD OF DIRECTORS

HAROLD V. BOGGS

F. R. MCGREW

HERBERT E. CLAYBURGH

JOHN J. REILLY

JOHN J. GOLDBERG

F. A. WICKETT

HARRY A. D. SMITH

OFFICERS

JOHN J. REILLY *President*

HERBERT E. CLAYBURGH *Vice-President*

F. R. MCGREW *Vice-President and Treasurer*

HAROLD V. BOGGS *Vice-President in Charge of Merchandising*

HARRY A. D. SMITH *Vice-President and Manager of Olds, Wortman & King*

CECIL L. MARTIN *Vice-President and Manager of Rhodes Brothers*

E. F. SHINN *Secretary*

JOHN J. GOLDBERG *Assistant Secretary*

R. L. CHILDS *Assistant Secretary*

A. K. HUMBLE *Assistant Secretary*

H. W. RHEUBOTTOM *Assistant Treasurer*

LEGAL COUNSEL

JESSE H. STEINHART

PUBLIC ACCOUNTANTS

PRICE, WATERHOUSE & CO.

TRANSFER AGENT

THE ANGLO CALIFORNIA NATIONAL BANK
OF SAN FRANCISCO

No. 1 Sansome Street
San Francisco 20, California

REGISTRAR

WELLS FARGO BANK & UNION
TRUST CO.

Montgomery and Market Streets
San Francisco, California

Annual Stockholders Meeting . . . Oakland, California, Tuesday, May 27, 1947, 11:00 o'clock A.M.

Executive Offices 1501 Broadway, Oakland, California (Kahn's Department Store)

Oakland, California
May 7, 1947

To the Stockholders of
WESTERN DEPARTMENT STORES:

Consolidated financial statements for the fiscal year ended January 31, 1947, examined and reported upon by Price, Waterhouse & Co., are submitted herewith.

These statements consist of a consolidated balance sheet and earnings statement of Western Department Stores (operating three department stores: Kahn's, Oakland; Olds, Wortman & King, Portland; and Rhodes Brothers, Tacoma) and Morrison & Tenth Company (the company which holds the lease upon the property occupied by the Portland store).

EARNINGS AND FINANCIAL POSITION

The operating results for the past five years are presented herewith:

Year ending January 31	Sales	Profit before Federal Taxes	Federal Taxes	Net Profit
1947	\$28,899,078	\$2,989,947	\$1,150,000	\$1,839,947
1946	25,345,474	3,436,434	2,385,000	1,051,434
1945	22,765,350	3,296,685	2,425,000	871,685
1944	20,343,490	2,778,556	2,042,000	736,556
1943	15,416,248	1,665,942	1,181,000	484,942

At the close of the fiscal year there were outstanding 346,364 shares of Common Stock, upon which the net profit for the year just ended equals \$5.31 per share.

Cash on hand and in banks shows a decrease of \$1,560,931, but accounts receivable are \$909,513 greater and merchandise inventory shows an increase of \$1,449,526. However, merchandise on order at the close of the fiscal year was considerably under the amount a year ago and the amount of inventory on hand is not inconsistent with the volume of business done.

The ratio of current assets to current liabilities is 3.0 to 1 as compared with 2.7 to 1 a year ago and the net working capital at the close of the year is \$4,691,675, an increase of \$746,566.

The operations of the Oakland store were adversely affected by a strike of the Clerks' Union commencing October 31, 1946. The strike was called for the purpose of forcing all employees within the jurisdiction of this union to become members of the union or for what is commonly known as a "union shop." Only a minority of our employees in the Oakland store joined in this action so we have been able to continue store operations, but the sales volume was affected due to inability to make deliveries of heavy merchandise. Although only two stores in Oakland have been struck, the strike really concerns all of the stores of the Retail Merchants' Association in Oakland and Berkeley, and through the Association negotiations for settlement of the strike are now being conducted with the union.

CAPITALIZATION

In the early part of 1946 holders of 56,239 shares of Preferred Stock converted their holdings into 112,478 shares of Common Stock and on May 1, 1946 the balance of the outstanding Preferred Stock represented by 48 shares was redeemed.

In March, 1946, the remaining outstanding subscription to Five Year Convertible Notes representing \$3000 principal sum was converted into 300 shares of Common Stock.

At the November meeting of the Board of Directors the Treasurer was instructed to purchase in the open market not exceeding 5000 shares of the Common Stock of the corporation for the purpose of making the same available for sale to the employees of the corporation who in the judgment of the management should own shares of the corporation's stock. This step was deemed more desirable than using the present unissued common shares of the corporation. The purchase of the entire 5000 shares was made at an aggregate cost of \$109,809.88. At the date of this report all such shares are still retained by the company.

DIVIDENDS

Dividends on Common Stock have been paid at the rate of 25 cents per share on April 1, 1946, and 40 cents per share on July 1 and October 1, 1946, and January 2, 1947. A dividend of 40 cents per share was also paid on April 1, 1947, for the first quarter of the current year.

RETIREMENT PLAN

The management is well pleased with the first full year operation of the Retirement Plan. The contribution by the corporation for the past fiscal year amounted to \$215,730. This contribution is a designated portion of the net profit earned by the corporation after setting aside a certain portion of the profits for stockholders. The participating employees are required to make a contribution to the plan of 3 per cent of their base salary; over 90 per cent of those eligible to join the plan are members.

IMPROVEMENT PROGRAM

When materials were available and Civilian Production Administration permits could be obtained, the company was able to make a start on its improvement program.

In the Oakland store new escalators from the first to the third floors were nearing completion when the strike by the Clerks' Union halted this work. When strike conditions are eliminated this work will be completed and in addition it is expected that three new passenger elevators will be installed before the next Christmas season. On July 1st of this year we take possession of approximately 10,000 square feet of ground floor space now occupied by four other retail establishments in one of the buildings occupied by the Oakland store. This will add 100 feet of Broadway frontage running to the corner of Sixteenth Street. If the necessary permits can be obtained we will remodel this space for expansion of our first floor departments.

At the Portland store we were able to complete in early November the installation of escalators from the first to the third floors, so this much needed improvement in transportation for our customers was available for the Christmas business. We are now proceeding with the installation of three new passenger elevators in this store which should be completed by late summer and then the old elevators which were installed forty years ago will be removed.

In Tacoma arrangements are being made through our landlord to construct an additional building alongside our Annex building to provide additional sales and storage room, but due to present building conditions no contract for this construction has been entered into at this time.

Plans have been made and are in process for many other improvements in all three stores and work will be scheduled as materials are available and permits can be obtained.

GENERAL

The management is pleased to welcome back the men and women who have been in the armed services of their country and we are endeavoring to place these people in positions where they will have an opportunity to make real progress in our organization. This has also permitted the management to reinstate its policy of building young people into the organization so that they may take over certain responsibilities which some of the older executives have carried through the war period.

With economists disagreeing as to what the business developments will be during the present year, we would not undertake to make any predictions other than to state that our organization will meet the problems which lie ahead with the same zeal and determination which was exhibited in the past.

For the Board of Directors.

JOHN J. REILLY,

President

ACCOUNTANTS' REPORT

San Francisco
April 24 1947

To the Board of Directors of

WESTERN DEPARTMENT STORES:

We have examined the consolidated balance sheet of Western Department Stores and its wholly owned subsidiary as of January 31 1947 and the related statement of profit and loss and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

In our opinion, the accompanying statements present fairly the consolidated position of Western Department Stores and its subsidiary at January 31 1947 and the results of their operations for the year in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & Co. \

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CONSOLIDATED BALANCE
(With comparative figure
(See accompanying notes

ASSETS

	January 31	
	1947	1946
Current Assets:		
Cash in banks and on hand.....	\$ 922,151.81	\$ 2,483,082.80
United States Government tax notes and excess profits tax refund bonds, at cost.....		\$ 19,365.28
Accounts receivable:		
Customers	\$2,019,959.71	\$1,183,959.62
Sundry	186,319.40	78,611.97
	\$2,206,279.11	\$1,262,571.59
Less—Reserve for doubtful accounts.....	193,878.91	159,683.84
	\$2,012,400.20	\$1,102,887.75
Inventories of merchandise:		
On hand, at or below cost, as determined by the retail inventory method	\$3,328,851.47	\$2,125,005.08
In transit, at cost.....	722,506.59	476,826.55
	\$4,051,358.06	\$2,601,831.63
Total current assets	\$6,985,910.07	\$6,207,167.46
Miscellaneous Investments, Deposits and Advances.....	\$ 48,362.63	\$ 43,625.23
Property Accounts, at Cost:		
Buildings, furniture and equipment, etc.....	\$1,190,617.97	\$1,114,642.71
Leasehold and improvements to leased buildings.....	1,109,417.49	724,325.33
	\$2,300,035.46	\$1,838,968.04
Less—Reserves for depreciation and amortization.....	1,545,154.77	1,488,508.69
	\$ 754,880.69	\$ 350,459.35
Land (including undivided one-half interest in real estate— \$138,979.76 and \$128,418.21, respectively)	212,479.76	201,918.21
	\$ 967,360.45	\$ 552,377.56
Deferred Charges:		
Unexpired insurance, prepaid taxes and other expenses.....	\$ 174,007.48	\$ 117,938.38
	\$8,175,640.63	\$6,921,108.63

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Corporation)
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SHEET—JANUARY 31 1947
es as at January 31 1946)
to financial statements)

LIABILITIES

		January 31	
		1947	1946
Current Liabilities:			
Accounts payable, trade		\$1,221,883.26	\$1,446,229.60
Payrolls, taxes and other accrued liabilities.....		995,593.31	794,466.97
Estimated reserve for Federal taxes on income.....		1,176,758.92	2,410,000.00
Less—United States Treasury Notes, Tax Series C.....		(1,100,000.00)	(2,410,000.00)
Dividend payable, February 1 1946.....			21,361.23
Total current liabilities		\$2,294,235.49	\$2,262,057.80
Employee's Subscription to Five Year Convertible Notes.....			\$ 650.00
Reserve for Contingencies and Post-War Adjustments.....		\$ 500,000.00	\$ 500,000.00
Capital Stock and Surplus (Note A):			
Capital stock:			
		Shares	
		1947	1946
6% Cumulative Convertible Preferred, par value \$25 per share:			
Authorized	67,133	67,133	
Issued	None	56,287	\$1,407,175.00
Common, par value \$0.50 per share:			
Authorized	600,000	600,000	
Issued	351,364	238,586	
Less—In treasury	5,000		
Outstanding.....	346,364	238,586	\$ 175,682.00 119,293.00
Excess of par value of 6% Cumulative Convertible Preferred Stock over par value of Common Stock issued in exchange therefor....		1,610.040.00	260,304.00
Stated capital.....		\$1,785,722.00	\$1,786,772.00
Paid-in surplus		\$ 240,350.00	\$ 237,500.00
Earned surplus since reorganization April 8 1937, per statement attached		\$3,355,333.14	\$2,134,128.83
Contingent Liabilities (Note B).....			
		\$8,175,640.63	\$6,921,108.63

**WESTERN DEPARTMENT STORES
AND WHOLLY OWNED SUBSIDIARY**

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS

YEAR ENDING JANUARY 31 1947

(With comparative figures as at January 31 1946)

(See accompanying notes to financial statements)

	1947	1946
Net sales, including leased departments.....	\$28,899,078.62	\$25,345,474.55
Less—Sales of leased departments.....	3,718,258.87	3,578,015.80
	<u>\$25,180,819.75</u>	<u>\$21,767,458.75</u>
Cost of merchandise sold.....	17,171,894.07	14,177,374.67
Gross profit—own departments	\$ 8,008,925.68	\$ 7,590,084.08
Discounts on purchases	718,453.56	597,764.18
Gross income from leased departments.....	485,788.72	478,959.29
Other income	131,402.13	98,940.44
	<u>\$ 9,344,570.09</u>	<u>\$ 8,765,747.99</u>
Selling, general and administrative expenses.....	\$ 6,037,286.40	\$ 5,081,753.24
Contribution to profit sharing retirement plan.....	215,730.59	182,480.30
Provision for depreciation and amortization.....	61,661.78	56,287.60
Interest	3,421.44	930.26
Other charges	36,522.91	7,862.37
	<u>\$ 6,354,623.12</u>	<u>\$ 5,329,313.77</u>
Profit, before provision for Federal taxes on income.....	\$ 2,989,946.97	\$ 3,436,434.22
Estimated provision for Federal taxes on income.....	1,150,000.00	2,385,000.00
Profit for year	<u>\$ 1,839,946.97</u>	<u>\$ 1,051,434.22</u>
Adjustments of reserves and related Federal taxes on income, applicable to prior years		11,264.20
Balance of profit to earned surplus.....	\$ 1,839,946.97	\$ 1,062,698.42
Earned surplus at beginning of year.....	2,134,128.83	1,323,469.32
	<u>\$ 3,974,075.80</u>	<u>\$ 2,386,167.74</u>
Excess of redemption price over par value of 48 shares of 6% Cumulative Convertible Preferred Stock redeemed.....	\$ 72.00	
Purchase price of 5,000 shares of Common Stock held in treasury...	109,809.88	
Dividends paid or declared (Note C)	508,860.78	\$ 252,038.91
	<u>\$ 618,742.66</u>	<u>\$ 252,038.91</u>
Earned surplus at end of year (accumulated since reorganization, April 8 1937)	<u>\$ 3,355,333.14</u>	<u>\$ 2,134,128.83</u>

**WESTERN DEPARTMENT STORES
AND WHOLLY OWNED SUBSIDIARY**

NOTES TO FINANCIAL STATEMENTS—JANUARY 31 1947

NOTE A:

During the year, 56,239 shares of preferred stock were converted into 112,478 shares of common stock, and 48 shares of preferred stock were redeemed. 300 shares of common stock were issued upon conversion of \$3,000 principal amount of Five Year Convertible Notes.

At January 31 1947, 94 shares of common stock were represented by fractional share scrip certificates which are non-voting and are not entitled to dividends.

In a meeting held on March 25 1947, the Board of Directors by appropriate action reduced the legal stated capital from \$1,842,722 to \$1,785,722, as shown in the balance sheet as at January 31 1947.

Paid-in surplus represents the excess of the principal amount of Five Year Convertible Notes over the par value of common stock issued therefor.

NOTE B:

Under the provisions of a lease of the Oakland store premises for the period from July 1 1944 to June 30 1965, the Corporation has agreed to make extensive improvements and alterations to the premises as soon as practical. It is impracticable to state when the expenditures will be made but it is presently estimated that the total cost of such improvements will exceed the minimum amount specified, \$750,000; the lessor has agreed to bear the cost of such improvements up to \$450,000.

The Corporation has also commenced a program of extensive improvements and alterations to the Portland store premises. In connection therewith, construction contracts have been entered into at January 31 1947, aggregating \$205,000.

NOTE C:

Dividends declared and paid during the year ending January 31 1947 were as follows:

6% cumulative convertible preferred stock:

\$0.37½ per share in cash..... \$ 639.78

Common stock \$0.50 par value:

\$1.45 per share in cash..... 508,221.00

\$508,860.78





